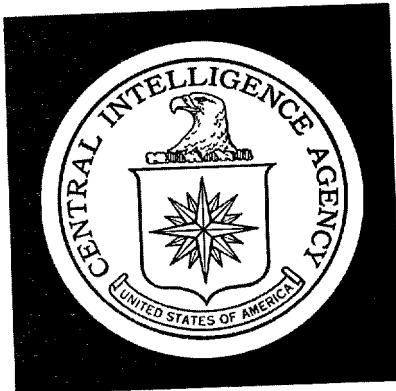


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Central Intelligence Bulletin

Secret
50

18 July 1969

25X1

Approved For Release 2003/06/11 : CIA-RDP79T00975A014100130001-0

Approved For Release 2003/06/11 : CIA-RDP79T00975A014100130001-0

~~SECRET~~No. 0171/69
18 July 1969

Central Intelligence Bulletin

CONTENTS

Vietnam: Situation report. (Page 1)

Malaysia: A second round of communal violence appears imminent. (Page 2)

India: The political crisis is becoming more acute. (Page 3)

West Germany: The political debate over revaluation of the deutschemark is again heating up. (Page 4)

El Salvador - Honduras: Efforts toward a cease-fire remain bogged down. (Page 5)

Zambia-Portugal: Zambian charges in UN (Page 7)

Somali Republic - Ethiopia: Ogaden quieter (Page 7)

USSR: Earth resources satellite (Page 8)

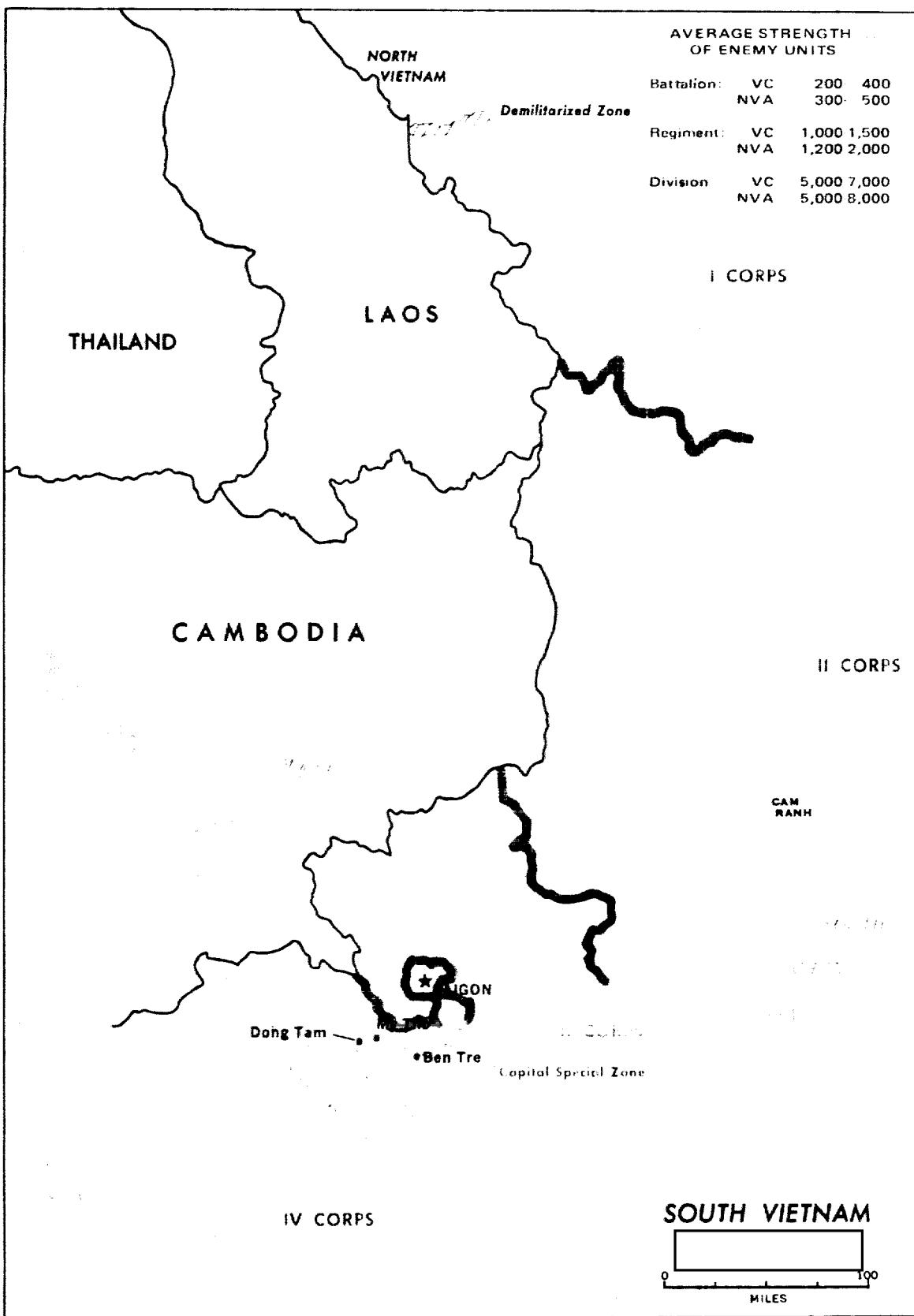
Brazil: Educator's resignation (Page 8)

Paraguay: Press crackdown (Page 9)

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[Vietnam:

South Vietnam: Communist forces continue to prepare for attacks in several areas of South Vietnam, and a new "highpoint" could come this weekend.

Saigon was hit with four to six rockets on 17 July. Although the over-all level of significant military action remained low on 16-17 July, the Communists also shelled several important targets in the delta. Dong Tam, My Tho, and Ben Tre all received a sprinkling of rocket and mortar fire.

North Vietnam: Hanoi is having difficulty with coal production after months of high-priority efforts. The North Vietnamese leadership has insisted on a quick rehabilitation of its coal industry in an effort to generate increased foreign exchange. Coal has traditionally been Hanoi's principal source of hard currency, and the leadership's decision to restore production in this field quickly was probably prompted by the need for some earnest money for trade with non-Communist countries. High levels of North Vietnamese officialdom were brought to bear on the problem but without success.

Hanoi's inability to make any headway in this high-priority effort is almost certainly related to the criticism of workers and managers appearing in the press. It is probably another indication of the letdown that reportedly settled in shortly after the bombing halt of March 1968. Now, more than a year later, the gap between the leadership's ambitions and the response of the North Vietnamese people appears to be growing. [] (Map)]

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18 Jul 69

Central Intelligence Bulletin

1

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Approved For Release 2003/06/11 : CIA-RDP79T00975A014100130001-0

Malaysia: A second round of communal violence appears imminent.

The recent ouster of a popular extremist leader from the executive council of the ruling United Malays National Organization has strengthened the determination of extremist elements within the party and the Malay community to force Prime Minister Rahman's resignation and precipitate an open confrontation with the Chinese. Rahman has been for both the Malays and Chinese the symbol of conciliation with the Chinese community.

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[redacted] the extremists' strategy is to provoke further racial incidents, thereby forcing intervention by the predominantly Malay army, many of whose junior and middle ranking officers favor the extremists' position. This would be followed by the ouster of Rahman along with the entire Malay "old order," presumably including Deputy Prime Minister Razak, the moderate head of the emergency government. An extremist Malay government would be formed and the Chinese community would be suppressed.

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An initial effort to carry out this strategy may have been made yesterday when an estimated 1,000 Malay students demonstrated at the University of Malaysia in Kuala Lumpur demanding Rahman's resignation. The students dispersed without provoking any Chinese reaction, but further demonstrations--which are expected--could well do so.

Whether communal violence resumes now depends largely on the government's firmness in suppressing Malay provocations and its swiftness in initiating policies acceptable to the extremists. Razak's indecisiveness suggests, however, that the government may well fail to halt the growing power and militancy of the extremists and to prevent the outbreak of further violence, which will almost certainly be on a much larger scale than before.

25X1

18 Jul 69

Central Intelligence Bulletin

2

*India: A move to oust Prime Minister Gandhi appears to be in the making within the Congress Party.

Former deputy prime minister Morarji Desai's resignation from the cabinet has set in train furious political activity which has drawn into New Delhi virtually every Congress Party leader of any consequence. Despite strong pressure on Desai to avert an open break in the party, he says he is willing to fight.

A party vote of confidence on the issue of Mrs. Gandhi's leadership may be taken when the Congress Party members of Parliament meet on 20 July. The party's left wing is standing behind the prime minister while more conservative elements are being rallied by her old-guard opponents. Personality and other nonideological factors will also play an important role.

Mrs. Gandhi's supporters are asserting that they have more than enough votes to win a clear mandate from the 431 Congress parliamentarians, but they may well be inflating their strength. The prime minister's recent actions have aroused unprecedented opposition within the party, and some of her most steadfast supporters are shaken.

Key Congress leaders, including Home Minister Y. B. Chavan, are attempting to arrange a compromise. They may be successful despite the tension which now prevails. If the parliamentary group should adopt a no-confidence motion, the ruling party could split so deeply that the country's present single-party Congress government would be in jeopardy.

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*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Defense Intelligence Agency, Department of Defense.

West Germany: The political debate over revaluation of the deutschmark is again heating up.

On 11 July, West Germany's Council of Economic Experts, an independent board charged with advising the government on economic policy, released a special report backing early revaluation. Major political leaders, sensing the importance of the issue in the September parliamentary election campaign, have been quick to reaffirm the positions to which they had committed themselves earlier this year.

In the face of rampant currency speculation, the government announced on 9 May that there would be no revaluation. Chancellor Kiesinger, backed by his Christian Democratic colleagues, overrode the forces in favor of revaluation led by Economics Minister Schiller, a Social Democrat.

Schiller has now returned to the battle in an effort to recoup the political ground he lost in May. He appears to be pinning his hopes on sharp price rises, not yet in sight, which he can then blame on the decision against revaluation. Moreover, he is gambling that he can clarify the issue for an electorate that tends to be skeptical of currency adjustment proposals. Thus far, Schiller has received little or no support from other leading Social Democrats.

Responding to Schiller's initiative, Kiesinger has publicly stated that he is determined to stand by the May decision under all circumstances during this legislative term. Kiesinger left open the possibility of a revaluation after the election on 28 September, however. [redacted]

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25X1 [C] El Salvador - Honduras: Efforts toward a cease-fire remain bogged down by Salvadoran unwillingness to pull back from Honduran territory.

[redacted] El Salvador is determined to gain some face-saving concession before releasing occupied Honduran ground, such as having the territory handed over to an OAS administration rather than to the Hondurans.

Salvadoran troops have not been able to sustain their earlier rapid advances and there are indications that the tide is turning slightly in Honduras' favor. Successful action by the Honduran Air Force has made the pilots cocky and more eager to redress earlier setbacks in the ground war.

Troop movements suggest that El Salvador is giving all available support to the El Poy front. The Salvadoran Air Force, however, is estimated to be on its last legs as an effective force.

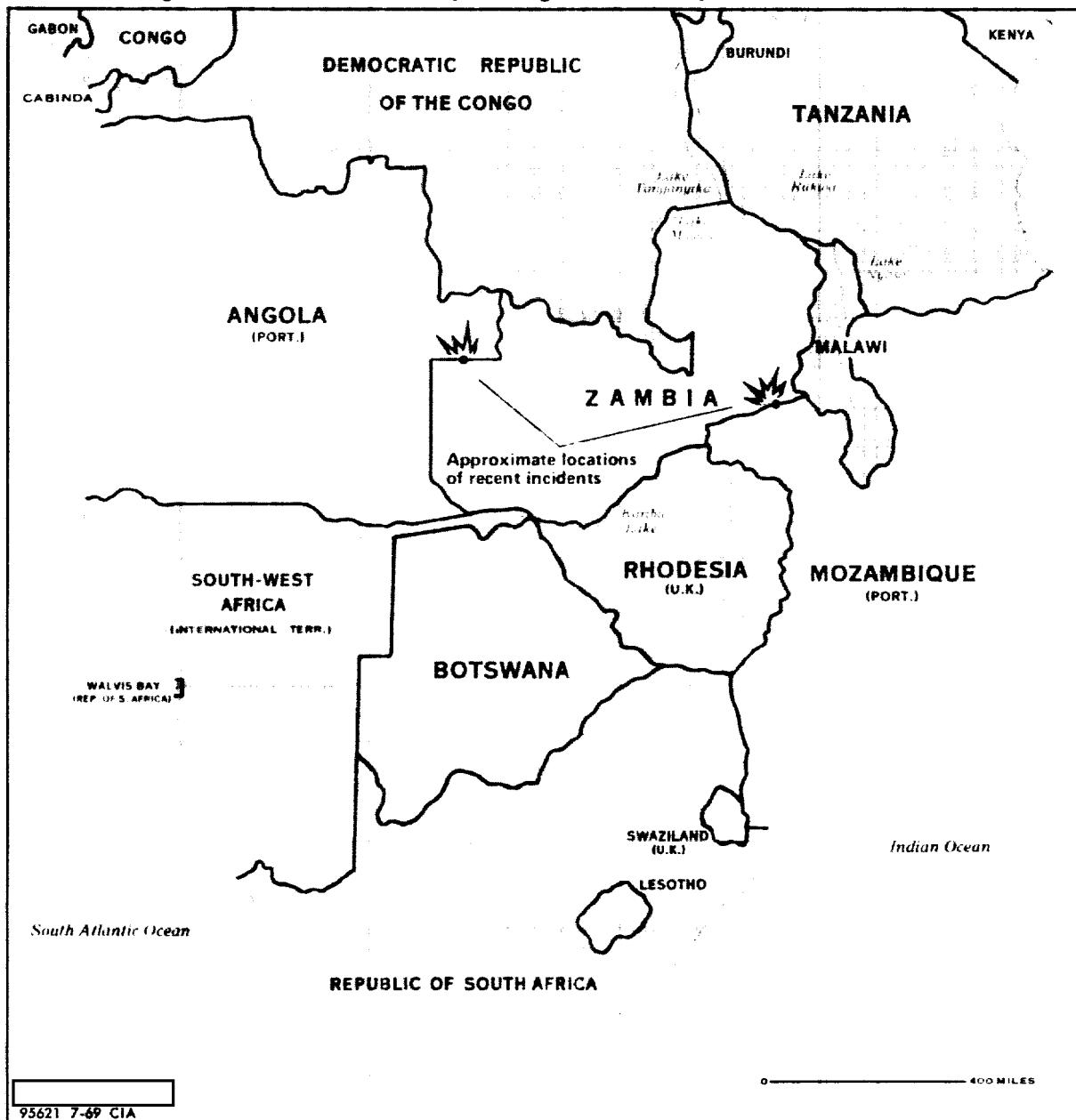
Approximately 1,200 Salvadorans are being held in San Pedro Sula, and they apparently have not been harmed. Their well-being may be endangered, however, if hostilities continue. Some breakdown in authority has occurred in the area, as ill-disciplined civilian defense groups begin to quarrel among themselves. These Salvadoran citizens in Honduras are a source of concern and a propaganda weapon for El Salvador.

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Zambia Charges Border Violations by Portuguese Military Forces



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Zambia-Portugal: The UN Security Council today will take up Zambian charges of border violations by Portuguese military forces. Portuguese counterinsurgency operations against Angolan and Mozambique insurgents based in Zambia have led to sporadic border incidents since mid-1966, most recently in June and early this month. Zambia may have called for a meeting in order to put stronger pressure on Lisbon to refrain from attacks across the border. The Zambian ambassador to the UN has said that he would like to avoid broader issues such as Portuguese "colonialism" or NATO and Western support for Portuguese rule in Africa. [redacted] (Map)

* * * *

Somali Republic - Ethiopia: The situation in the Ogaden after the recent serious fighting between Ethiopian troops and Somali nomads has quieted, and Somali Prime Minister Egal appears, at least for the time being, to have escaped any serious political repercussions. The government had delayed reporting the clash for a week until the fighting subsided and a joint investigation at the border got under way. This apparently helped soften public reaction in Mogadiscio. Tension remains high in the north, however, where the Somalis have close tribal ties with the nomads across the border. Egal is still concerned with the implications of the incident for his detente policy, because continuing friction with Ethiopia over the Ogaden provides ready ammunition for his opponents. [redacted]

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18 Jul 69

Central Intelligence Bulletin

7

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Approved For Release 2003/06/11 : CIA-RDP79T00975A014100130001-0

USSR: The Soviets may be planning to design and build an earth resources satellite. The data collected by this type of vehicle would have many practical applications, such as surveying large areas or spotting potential mineral deposits. A new organization reportedly has been established in Leningrad that, among other things, would be responsible for the analysis of information on earth resources obtained from satellites. The Soviets are not known to have orbited a probe for this particular purpose, but some data on earth resources may occasionally have been collected as a byproduct of Soviet scientific and military satellite programs.

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Brazil: The rector of the Federal University of Rio de Janeiro has resigned in protest--according to his colleagues--against what he considers the government's failure to deal with the many problems facing the university and the entire educational system. Another reason, however, may have been the administration's recent firing of his brother, hard-line General Augusto Moniz de Aragao. The rector may have expected similar treatment and resigned, instead, to ensure that the university council would have a voice in the selection of his successor. If he had been fired, the government would have made the choice. In that case, the nominee most likely would have been an ultraconservative, and widespread faculty resignations might have resulted.

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18 Jul 69

Central Intelligence Bulletin

8

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Approved For Release 2003/06/11 : CIA-RDP79T00975A014100130001-0

Paraguay: President Stroessner is taking an increasingly hard line against "excessive" political criticism. Attacks against the government by students and clergy, as well as by politicians, have been mounting for several months and have gained wide coverage in the press. In retaliation, the government has begun to censor, confiscate, ban, and otherwise harass offending publications. So far, Stroessner has concentrated mainly on reducing propagandizing by the opposition parties, but he is probably prepared to crack down harder, even at the risk of prompting an unwelcome showdown with the church, if the goading does not lessen.

25X1

18 Jul 69

Central Intelligence Bulletin

9

SECRET

Approved For Release 2003/06/11 : CIA-RDP79T00975A014100130001-0

NATIONAL INTELLIGENCE ESTIMATES

The United States Intelligence Board on 17 July 1969 approved the following national intelligence estimates:

NIE 42-69 "The Outlook in South Korea"
[redacted]

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SNIE 11-9-69 "Current Soviet Attitudes Toward the US"
[redacted]

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18 Jul 69

Central Intelligence Bulletin

10

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Secret Approved For Release 2003/06/11 : CIA-RDP79T00975A014100130001-0

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